

Northeast Michigan Consortium

Onaway, Michigan

Financial Statements and Additional Information
Year Ended June 30, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Northeast Michigan Consortium	County Presque Isle
Fiscal Year End June 30, 2007	Opinion Date January 14, 2008	Date Audit Report Submitted to State 1/28/08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

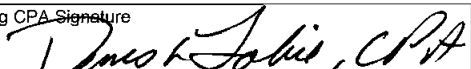
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	Comments and recommendations not necessary for current audit	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Wipfli LLP		Telephone Number (608) 274-1980	
Street Address 2901 West Beltline Highway, Suite 201		City Madison	State WI
		Zip 53713	
Authorizing CPA Signature 		Printed Name Denes L. Tobie, CPA	
		License Number 1101027328	

Northeast Michigan Consortium

Financial Statements and Additional Information
Year Ended June 30, 2007

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Independent Auditor's Report

Board of Directors
Northeast Michigan Consortium
Onaway, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Northeast Michigan Consortium as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of Northeast Michigan Consortium's management. Our responsibility is to express opinions on these financial statements based on our audit.


We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Northeast Michigan Consortium as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2008, on our consideration of Northeast Michigan Consortium's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 8 and the budgetary comparison information on page 22 are not a required part of the basic financial statements, but are additional information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consist principally of inquiries of management regarding methods of measurement and presentation of the required additional information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Northeast Michigan Consortium's basic financial statements. The accompanying schedule of expenditures of federal awards and other financial assistance, Schedule A-1 to A-5, which includes the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.


Wipfli LLP

January 14, 2008
Madison, Wisconsin

Northeast Michigan Consortium

Management's Discussion and Analysis

Financial Highlights

- Northeast Michigan Consortium's (the "Consortium") overall financial position, as reflected in the total net assets, increased by \$65,762 in 2007 and decreased by \$2,972 in 2006.
- In governmental funds, the total fund balance increased by \$27,278 in 2007 and decreased by \$2,972 in 2006.

A synopsis of key financial activities for the 2007/2006 fiscal year is as follows:

- In conjunction with Alpena Community College, the Consortium remained involved with training funded by a discretionary three-year United States Department of Labor (USDOL) H-1B training grant. The purpose of the grant was to provide high-tech training to employees of several large corporations, both within Michigan and other states, as well as a regional medical center, a national concrete association, and the Alpena Area Chamber of Commerce. This was the final year of the grant, which essentially ended six months into the audit period. For the audit period, \$147,875 was expended. During the three-year period, 848 individuals benefited from training. With the Consortium's endorsement, it is worthy to note that Alpena Community College received a prestigious Award for Excellence in the innovations in education category from USDOL, one of only six awarded nationally. The model program continues at Alpena Community College using other grant funds (the Consortium is not financially involved) and expanding on the techniques and partnerships developed during the grant period.
- The Consortium received a \$50,000 21st Century Planning Initiative grant from the Michigan Department of Labor and Economic Growth, as one of 13 regions funded statewide. The purpose of the grant is to develop coordinated regional workforce strategies in the following areas: creating a unified approach to working with employees; assessing the status of the local workforce and economy; a rapid response model; layoff aversion; attracting and retaining talent; and communication strategies. As a result of the grant, a unique relationship evolved with the Northern Economic Network, an 18-county group of economic developers, and a selection of a business retention and expansion software package to be used uniformly across all 18 counties in order to promote better employer-based communications and a localized data base. It is anticipated that the Consortium will apply for funds the state is making available to implement various plan components.
- In December of 2006, the Consortium received an incentive award from the state for exceeding all 17 performance measures of adult and youth, the fifth consecutive year that the Consortium and its contractors exceeded all standards.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Consortium's basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. In addition, other information supplementary to the basic financial statements is provided.

Northeast Michigan Consortium

Management's Discussion and Analysis

Overview of the Financial Statements (Continued)

Government-Wide Financial Statements

- The government-wide financial statements are the statement of net assets and the statement of activities. These statements present an aggregate view of the Consortium's finances in a manner similar to private and nonprofit sectors.
- The statement of net assets presents information on all of the Consortium's assets and liabilities, with the difference between the two being reported as net assets.
- The statement of activities presents information showing how the Consortium's net assets changed during the year.
- The government-wide financial statements are shown on pages 9 and 10 of this report.

Fund Financial Statements

- The Consortium also produces fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. The Consortium, like other federal/state and local governments, uses fund accounting to demonstrate compliance with finance-related legal requirements. Fund statements generally report operations in more detail than the Consortium's government-wide statements.
- There are two fund financial statements: the statement of net assets and governmental fund balance sheet and the statement of activities and governmental fund revenue, expenditures, and changes in fund balance.
- The Consortium has only one fund: the governmental general fund. The general fund accounts for all federal, state, and local grant-funded programs.

The major features of the Consortium's financial statements, including the portion of the activities reported and the type of information contained, are shown in the following table.

	Government-Wide Statements	Fund Financial Statements Governmental
Scope	Entire government.	The programmatic and operating activities of the Consortium, such as employment and training.
Required Financial Statements	Statement of net assets and statement of activities.	Statement of net assets and governmental fund balance sheet and statement of activities and governmental fund revenue, expenditures, and changes in fund balance.
Basis of Accounting and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting. Current financial resources focus.
Type of Asset and Liability Information	All assets and liabilities, both financial and capital, short-term and long-term.	Generally includes assets expected to be used up and liabilities that come due during the year or soon thereafter. No capital assets or long-term liabilities included.
Type of Inflow and Outflow Information	All revenue and expenses during the year, regardless of when cash is received or paid.	Revenue for which cash is received during or soon after the end of the year. Expenditures when goods or services have been received and the related liability is due and payable.

Northeast Michigan Consortium

Management's Discussion and Analysis

Overview of the Financial Statements (Continued)

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the Consortium's government-wide and fund financial statements. The notes to the financial statements can be found on pages 11 through 16 of this report.

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Consortium, assets exceeded liabilities by \$184,169 and \$118,407 at June 30, 2007 and 2006, respectively. Table 1 below provides a summary of the Consortium's net assets for the years ended June 30, 2007 and 2006.

Table 1
Condensed Statement of Net Assets
on Governmental Activities

	2007	2006
Current and other assets	\$ 620,568	\$ 804,341
Capital assets	62,370	0
Total assets	682,938	804,341
Current liabilities	474,883	685,937
Long-term liabilities	23,886	0
Total liabilities	498,769	685,937
Net assets:		
Invested in capital assets	62,370	0
Unrestricted	121,799	118,407
Total net assets	\$ 184,169	\$ 118,407

In governmental activities, total assets decreased by \$121,403 in 2007 and \$48,941 in 2006, respectively. The decrease in 2007 was caused by a decrease in cash and certificates of deposit of \$105,304, a decrease in grants receivable of \$94,106, an increase in capital assets of \$62,370, and an overall increase in other receivables and prepaid expenses of \$15,637. The decrease in 2006 was caused by a decrease in cash of \$95,276, an increase in grants receivable of \$49,465 and an overall decrease in other receivable and prepaid expenses of \$3,130. Total liabilities decreased \$187,165 in 2007 and by \$45,969 in 2006. The decrease in 2007 was caused by a decrease in accounts payable of \$220,342, an increase in accrued vacation of \$31,290, and an overall increase in other liability accounts of \$1,887. The decrease in 2006 was caused by an increase in accounts payable of \$117,886, a decrease in unearned revenue of \$163,655, and an overall decrease in other liability accounts of \$200.

Northeast Michigan Consortium

Management's Discussion and Analysis

Change in Net Assets

Table 2 below summarizes the change in net assets for the fiscal years 2007 and 2006.

Table 2
Change in Net Assets

	2007	Percentage of Funding	2006	Percentage of Funding
Revenue:				
Operating grants	\$ 5,342,806	97.35%	\$ 5,592,052	89.67%
In-kind revenue	139,830	2.55%	643,469	10.32%
Miscellaneous	5,391	0.10%	1,028	0.02%
Total revenue	5,488,027	100.00%	6,236,549	100.00%
Expenditures:				
Administration	487,855	9.00%	495,490	7.94%
Core services	1,547,468	28.54%	2,090,332	33.50%
Intensive services	1,530,144	28.22%	1,575,775	25.25%
Direct training	479,533	8.84%	248,116	3.98%
Out-of-School	503,267	9.28%	497,672	7.98%
In-School	486,459	8.97%	502,644	8.06%
Assistance	245,709	4.53%	182,023	2.92%
In kind	139,830	2.58%	643,469	10.31%
Other	2,000	0.04%	4,000	0.07%
Total expenditures	5,422,265	100.00%	6,239,521	100.00%
Changes in net assets	65,762		(2,972)	
Net assets - beginning of year	118,407		121,379	
Net assets - end of year	\$ 184,169		\$ 118,407	

As shown, program revenue in the form of grants provides about 97% of the funds for governmental activities, which are expended primarily on core services, intensive services, and direct training. Operating grant revenue for 2007 was \$249,246 or 4% less than 2006.

Governmental Funds

The Consortium completed the year with a total governmental fund balance of \$145,685, \$27,278 more than last year's ending fund balance of \$118,407.

Northeast Michigan Consortium

Management's Discussion and Analysis

Governmental Funds (Continued)

General Fund Budgetary Highlights

Significant differences between original and final amended budget and actual financial results are summarized as follows:

- Federal grant revenue was under budget by \$533,738. The Consortium budgeted for a significant increase in Trade Act and Work First funding; however, the actual Trade Act and Work First monies earned were less than budgeted projections.
- Total expenditures were under budget by \$598,365. The shortfall in expenditures follows the shortfall in funding previously described.

Capital Assets

At the end of the 2007 fiscal year, the Consortium had invested a cumulative of \$267,406 in capital assets, including vehicles and equipment (see Table 3). Additional information about capital assets can be found in Note 7, page 16. The Consortium recognized depreciation expense of \$14,030 for governmental activities. Total accumulated depreciation on these assets was \$205,036.

Table 3
Capital Assets

	2007	2006	% Change
Equipment	\$ 228,502	\$ 199,596	0.56%
Vehicles	38,904	39,263	0.56%
Accumulated depreciation	(205,036)	(238,859)	0.56%
Totals	\$ 62,370	\$ 0	

Factors Bearing on Northeast Michigan Consortium's Future

There are a variety of factors concerning the Consortium's future in the next one- to three-year period:

- Normal funding levels outside of discretionary grants recently awarded have remained constant in most program areas, although there have been some decreases. Part of this is due to federal budgetary decreases, as well as state general fund cutbacks and eliminations. Some of the change is also due to how the Consortium fares in terms of federal and state formula distribution of funds, which takes into consideration economic factors, population, labor force size, and other data. Also, some state-level federal discretionary funds, which have in the past been decentralized to the 25 Michigan Works! Agencies, are now being placed into state-level programs or competitive requests for proposals from the state level. The Consortium has been successful in applications for discretionary funding to fill gaps and needs.

Northeast Michigan Consortium

Management's Discussion and Analysis

Factors Bearing on Northeast Michigan Consortium's Future (continued)

- The reauthorization of the Workforce Investment Act (WIA) has essentially been relegated to a lesser priority item in Congress, and it is unknown when it will occur. If/when it does, this may result in significant changes in target populations, funding formulas, and other pertinent factors, which can affect operations.
- The Temporary Assistance for Needy Families (TANF) legislation was rewritten nationally, with changes beginning to impact in the audit period. In Michigan, the Work First program will be replaced by the Jobs, Education and Training (JET) program, which was largely developed by the state in an attempt to meet new federal performance goals. The implementation period for the revised program has been tedious, as new roles, responsibilities, data bases, and lines of communication need to be vastly improved at the state level to ensure that the state as a whole meets its goals. The implementation has been effected to a degree by the state's budget dilemma and funding questions.
- The state administration has announced the "No Worker Left Behind" program, which provides for a stronger state role or framework which will overlay and influence local programs. More emphasis will be placed on training, with the focus point on a free tuition program. Funding was to include \$40 million in state general funds to supplement local resources, but this did not materialize given the state's budget problems. The state has indicated the potential for WIA discretionary funds. Implementation has been somewhat problematic, attempting to integrate the new state policies and details thereof with existent federal statutes and regulations and local policies or directives established by the Consortium's cognizant local boards. There is a concern as to the impact on the federal performance measures as the sheer number of individuals in training is expanded, given our economy's ability to ultimately absorb the trainees into the workforce. This may not be realized for five to seven years.
- Relative to the above, the federal government, and in turn the state, continues to raise performance measures yearly. Given the Northeast Michigan economy and unemployment, let alone the state continuing to exceed or meet goals (as they begin to approach 100%) becomes increasingly unrealistic. Relief, in the form of a regression model which weighs local economic factors and client characteristics, has not occurred because of the lack of WIA reauthorization.
- Given all of the above factors, the Consortium and its various contractors will need to carefully monitor federal and state legislation, as well as state-level activities, directions, and resultant policies. The Consortium will need to be flexible and creative in terms of reacting to changes and will need to aggressively pursue and compete for additional discretionary funding sources.

Contacting the Northeast Michigan Consortium's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Consortium's finances and to demonstrate the Consortium's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mr. Kurt Reis, Director, 20709 State Street, P.O. Box 711, Onaway, MI 49765.

Northeast Michigan Consortium

Statement of Net Assets and Governmental Fund Balance Sheet

June 30, 2007

	General Fund	Adjustments (Note 1)	Statement of Net Assets
Assets:			
Cash	\$ 52,561	\$ 0	\$ 52,561
Certificates of deposit	101,875	0	101,875
Grants receivable	421,908	0	421,908
Other receivables	4,676	0	4,676
Prepaid expenses	39,548	0	39,548
Capital assets	0	62,370	62,370
Total assets	\$ 620,568	\$ 62,370	\$ 682,938
Liabilities:			
Accounts payable	\$ 284,050	\$ 0	\$ 284,050
Accrued payroll and related expenses	26,693	0	26,693
Accounts payable to subcontractors	64,985	0	64,985
Compensated absences	60,613	23,886	84,499
Unearned revenue	38,542	0	38,542
Total liabilities	474,883	23,886	498,769
Fund balances/net assets:			
Unreserved fund balance	145,685	(145,685)	0
Total fund balance	145,685	(145,685)	0
Total liabilities and fund balance	\$ 620,568		
Net assets:			
Invested in capital assets		62,370	62,370
Unrestricted		121,799	121,799
Total net assets		\$ 184,169	\$ 184,169

Northeast Michigan Consortium

Statement of Activities and Governmental Fund Revenue, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2007

	General Fund	Adjustments (Note 1)	Statement of Activities
Revenue:			
Federal grant revenue	\$ 5,114,892	\$ 0	\$ 5,114,892
State grant revenue	227,914	0	227,914
Interest revenue	5,391	0	5,391
In-kind revenue	139,830	0	139,830
Total revenue	5,488,027	0	5,488,027
Expenditures/expenses:			
Personal services	2,583,935	23,886	2,607,821
Supplies	225,800	0	225,800
Other charges and services	2,651,014	(62,370)	2,588,644
Total expenditures/expenses	5,460,749	(38,484)	5,422,265
Excess (deficiency) of revenue over expenditures	27,278	(27,278)	0
Change in net assets	0	65,762	65,762
Fund balance/net assets - beginning of year	118,407	0	118,407
Fund balance/net assets - end of year	\$ 145,685	\$ 38,484	\$ 184,169

Northeast Michigan Consortium

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies

Nature of Operations

Northeast Michigan Consortium is a consortium of governments, which was organized in 1983. The Consortium was formed to develop and provide resources for the purpose of assisting low-income individuals through a variety of programs. The Consortium includes the counties of Alcona, Alpena, Cheboygan, Crawford, Oscoda, Otsego, Presque Isle, and Montmorency, Michigan. The Consortium is primarily supported through federal and state government grants, approximately 92% of which are provided by the Michigan Department of Labor and Economic Growth.

The financial statements of the Consortium have been prepared in conformity with generally accepted accounting principles as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Government-wide financial statements are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. The significant accounting principles and policies utilized by the Consortium are described below.

Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and the statement of activities present financial information about the Consortium's governmental activities. These statements include the financial activities of the overall government in its entirety. Governmental activities generally are financed through intergovernmental revenue and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and revenue for each function of the Consortium's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Revenue primarily consists of grants that are restricted to meeting the operational or capital requirements of a particular program. Revenue that is not classified as grant revenue, including interest income, is presented as other revenue.

Fund Financial Statements

The fund statements provide information about the Consortium's fund. A separate statement for each fund category is presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The Consortium reports only one major governmental fund.

General Fund

This is the Consortium's primary operating fund. It accounts for all financial activity, including activities associated with providing job training and other social service programs. Sources include financial aid received from the state and federal government.

Northeast Michigan Consortium

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the Consortium gives or receives value without directly receiving or giving equal value in exchange, include grants, entitlements, and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Interest earnings on temporary investments are recognized in the fiscal period earned.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Consortium considers all revenue reported in the governmental funds to be available if the revenue is collected within 60 days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Unearned revenue is reported on the balance sheet when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenue also arises when resources are received by the Consortium before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability on the balance sheet is removed and revenue is recognized.

Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair market value at the time received. Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide financial statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Equipment	\$ 5,000	Straight line	3
Vehicles	\$ 5,000	Straight line	5

Northeast Michigan Consortium

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Federal and State Grant Revenue

Grants are recorded as invoiced to the funding source. Revenue is recognized in the accounting period when the related expenses are incurred. Amounts received or receivable in excess of expenses are reflected as unearned revenue.

In Kind/Match

All in-kind contributions required by grant awards are recorded in the statement of activities and governmental fund revenue, expenditures, and changes in fund balance at market value, and are recognized as revenue and expense in the period they are received. The in kind/match relates to the H-1B Technical Skills Training grant and consists of wages paid to apprentices and wages of trainees which are not charged to the grant, but nonetheless paid by employers.

Cost Allocation

Joint costs are allocated to benefiting programs using various allocation methods, depending on the type of joint cost being allocated. Whenever possible, costs are allocated directly to each program. Joint costs are those costs incurred for the common benefit of all the Consortium's programs that cannot be readily identified with a final cost objective.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Consortium is a consortium of governments organized under Michigan Public Act 7 of 1967 and is exempt from federal and Michigan income taxes.

Budgetary Accounting

An annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States for the general fund. The budget document presents information by fund, activity, and line items. The Consortium's Board approves the original budget at the beginning of the fiscal year. Amendments, if any, are approved periodically during the year.

Northeast Michigan Consortium

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies (Continued)**

Compensated Absences

Using the criteria established in GASB Statement 16, a liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee should be accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer should be accounted for in the period those services are rendered or those events take place.

The Consortium's personnel policy states that accumulated vacation is to be used within one year of the date that it is credited to the employee. Therefore, the balance of \$60,613 in accrued compensated absences is considered a short-term liability and has accordingly been reported on the statement of net assets and governmental fund balance sheet of the Consortium at June 30, 2007.

The Consortium's personnel policy states that personal time benefits can be accumulated but are only paid out upon termination or resignation from the Consortium. Therefore, the balance of \$23,886 in accrued compensated absences is not considered a liability in the governmental fund financial statements and has accordingly been reported on the statement of net asset and governmental fund balance sheet of the Consortium at June 30, 2007.

Explanation of Differences Between Statement of Activities and Governmental Fund Revenue, Expenditures, and Changes in Fund Balance and the Statement of Net Assets and Governmental Fund Balance Sheet

The differences between the statement of activities and governmental fund revenue, expenditures, and changes in fund balance and the statement of net assets and governmental fund balance sheet fall into one of two broad categories as indicated below:

1. Long-term revenue differences may arise because governmental funds report revenue only when they are considered "available," whereas the statement of activities reports revenue when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis whereas the accrual basis of accounting is used in the statement of activities.
2. Capital related differences include the difference between recording an expenditure for the purchase of capital items (including capital leases) in the governmental fund statements and capitalization and recording depreciation expense on those items as recorded in the statement of activities.

Northeast Michigan Consortium

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Explanation of Differences Between Statement of Activities and Governmental Fund Revenue, Expenditures, and Changes in Fund Balance and the Statement of Net Assets and Governmental Fund Balance Sheet (Continued)

Long-term accrued vacation earned	\$ 23,886
Capital outlay	(76,400)
Depreciation expense	14,030
Total	(\$ 38,484)
Long-term portion of accrued vacation	(\$ 23,886)
Cost of capital assets	267,406
Accumulated depreciation	(205,036)
Total	\$ 38,484

Note 2 Grants Receivable

Grants receivable at June 30, 2007, consisted of the following:

Michigan Department of Labor and Economic Growth	\$ 387,340
Michigan Economic Development Corporation	9,123
Michigan Department of Corrections	350
U.S. Department of Defense	25,095
Total	\$ 421,908

Note 3 Cash and Certificates of Deposit

The Consortium maintains cash and certificate of deposit balances at local banks in interest-bearing checking accounts. The Consortium does not have a formal policy that limits its exposure to fair value losses arising from increasing interest rates. As of June 30, 2007, the bank balance was \$160,973 and the carrying amount was \$154,436. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Balances in excess of \$100,000 are not collaterally secured by the banks. Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the Consortium will not be able to recover deposits that are in the possession of an outside party. As of June 30, 2007, the Consortium has a custodial credit risk on its deposits of \$60,973. At various times during the year, the Consortium's deposits may have been higher or lower than the balances at June 30, 2007. This means that the Consortium's custodial credit risk could have been higher or lower at those times.

Note 4 Risk Management

Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Northeast Michigan Consortium

Notes to Financial Statements

Note 5 Operating Leases

The Consortium leases various facilities for operation of its programs. Rent expense for the year ended June 30, 2007, was \$281,083. Future minimum lease payments on noncancelable leases having terms beyond June 30, 2007, are as follows:

2008	\$ 280,153
2009	165,621
2010	57,636
2011	57,636
Total	\$ 561,046

Note 6 Post-Employment Plans

The Consortium has a deferred compensation plan authorized under Section 457 of the Internal Revenue Code. The plan is open to substantially all employees. The contribution to the retirement plan by the Consortium is determined by the Board annually and was 6.31% of compensation for the year ended June 30, 2007. The Consortium's contributions for the year ended June 30, 2007, were \$27,020.

The Consortium also has a defined contribution post-employment health plan. The plan is open to substantially all employees. The contribution to the post-employment health plan by the Consortium is determined by the Board annually and was 4% of compensation for the year ended June 30, 2007. The Consortium's contributions for the year ended June 30, 2007, were \$17,129. During the year, no retirees received benefits under these provisions.

Note 7 Capital Assets

The capital asset balances and activity for the year ended June 30, 2007, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets being depreciated:				
Equipment	\$ 199,596	\$ 37,496	(\$ 8,590)	\$ 228,502
Vehicles	39,263	38,904	(39,263)	38,904
Total capital assets being depreciated	238,859	76,400	(47,853)	267,406
Less accumulated depreciation for:				
Equipment	(199,596)	(6,250)	8,590	(197,256)
Vehicles	(39,263)	(7,780)	39,263	(7,780)
Total accumulated depreciation	(238,859)	(14,030)	47,853	(205,036)
Governmental activities capital assets, net of accumulated depreciation	\$ 0	\$ 62,370	\$ 0	\$ 62,370

Additional Information

Year Ended June 30, 2007

See Independent Auditor's Report.

Northeast Michigan Consortium

Schedule A-2

Schedule of Expenditures of Federal Awards and Other Financial Assistance

Year Ended June 30, 2007

CFDA Number	Grant Number	Program Name	Grantor Agency	Program Period (Continued)	Program or Award Amount	Expenditures
ASSISTANCE PROGRAMS AS IDENTIFIED IN THE CATALOG OF FEDERAL DOMESTIC ASSISTANCE						
Department of Labor (Continued)						
17.258	N/A	WIA Adult	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	1,163,613	1,014,340
17.258	N/A	WIA Local Administration	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	140,527	106,441
17.258	N/A	WIA Statewide Activities Work First Support	Michigan Dept. of Labor and Economic Growth	10/01/06-06/30/07	13,586	13,586
17.258	N/A	WIA Statewide Activities One-Stop Operations	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	16,008	16,008
17.258	N/A	WIA Statewide Activities Displaced Homemaker	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	10,560	10,560
17.258	N/A	WIA Statewide Activities Performance Incentives	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	8,572	1,135
17.258	N/A	WIA Statewide Activities Capacity Building	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	18,490	18,490
Subtotal 17.258 (includes subcontracted expenditures of \$575,083)						1,180,560
17.259	N/A	WIA Youth	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	1,032,300	989,726
17.259	N/A	WIA Local Administration	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	147,994	112,867
17.259	N/A	WIA Statewide Activities Work First Support	Michigan Dept. of Labor and Economic Growth	10/01/06-06/30/07	14,756	14,756
17.259	N/A	WIA Statewide Activities One-Stop Operations	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	17,423	17,423
17.259	N/A	WIA Statewide Activities Displaced Homemaker	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	11,469	11,469
17.259	N/A	WIA Statewide Activities Performance Incentives	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	9,310	1,233

See Independent Auditor's Report.

Northeast Michigan Consortium

Schedule A-3

Schedule of Expenditures of Federal Awards and Other Financial Assistance

Year Ended June 30, 2007

CFDA Number	Grant Number	Program Name	Grantor Agency	Program Period (Continued)	Program or Award Amount	Expenditures
ASSISTANCE PROGRAMS AS IDENTIFIED IN THE CATALOG OF FEDERAL DOMESTIC ASSISTANCE						
Department of Labor (Continued)						
17.259	N/A	WIA Statewide Activities Capacity Building	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	20,080	20,080
		Subtotal 17.259 (includes subcontracted expenditures of \$821,011)				1,167,554
17.260	N/A	WIA Dislocated Worker	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	881,503	775,647
17.260	N/A	WIA Rapid Response Incumbent Worker	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	39,326	39,326
17.260	N/A	WIA Local Administration	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	135,775	101,694
17.260	N/A	WIA Rapid Response DW Scholarship	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	36,121	34,264
17.260	N/A	WIA Statewide Activities Work First Support	Michigan Dept. of Labor and Economic Growth	10/01/06-06/30/07	24,564	24,564
17.260	N/A	WIA Statewide Activities One-Stop Operations	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	28,647	28,647
17.260	N/A	WIA Statewide Activities Displaced Homemaker	Michigan Dept. of Labor and Economic Growth	07/01/06-06/3/07	19,093	19,093
17.260	N/A	WIA Statewide Activities Performance Incentives	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	15,500	2,052
17.260	N/A	WIA Rapid Response 21st Century Workforce	Michigan Dept. of Labor and Economic Growth	08/01/06-06/30/07	50,000	29,222
17.260	N/A	WIA Statewide Activities Capacity Building	Michigan Dept. of Labor and Economic Growth	07/01/06-06/30/07	33,430	33,430
		Subtotal 17.260 (includes subcontracted expenditures of \$574,327)				1,087,939
		Subtotal WIA Cluster 17.258, 17.259 and 17.260				3,436,053

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Northeast Michigan Consortium

Schedule A-5

Schedule of Expenditures of Federal Awards and Other Financial Assistance

Year Ended June 30, 2007

CFDA Number	Grant Number	Program Name	Grantor Agency	Program Period	Program or Award Amount	Expenditures
OTHER STATE AND LOCAL PROGRAMS						
N/A	085P00000028	Technical Assistance	Michigan Economic Development Corp.	10/01/05-09/30/06	40,000	7,509
N/A	085P00000028	Technical Assistance	Michigan Economic Development Corp.	10/01/06-09/30/07	40,000	33,124
N/A	N/A	Food Assistance	Michigan Dept. of Labor and Economic Growth	10/01/05-09/30/06	1,204	241
N/A	N/A	Supportive Services	Michigan Dept. of Labor and Economic Growth	10/01/06-09/30/07	1,558	224
N/A	N/A	Food Assistance	Michigan Dept. of Labor and Economic Growth	11/01/05-09/30/06	10,500	2,235
N/A	N/A	Supportive Services	Michigan Dept. of Corrections	10/01/06-09/30/07	10,500	4,470
N/A	N/A	Michigan Prisoner Re-entry	Michigan Dept. of Corrections	10/01/06-09/30/07	180,112	180,112
N/A	N/A	GF/GP State	Michigan Dept. of Labor and Economic Growth	10/01/06-09/30/07	180,112	180,112
Total Other State and Local Programs						227,915
OTHER ACTIVITY						
N/A	N/A	In-kind expenses	N/A	07/01/06-06/30/07	N/A	138,930
N/A	N/A	Corporate	N/A		N/A	2,000
Total Other Activity						140,930
TOTAL						\$ 5,483,736

Note to Schedule of Expenditures of Federal Awards and Other Financial Assistance

This schedule includes the federal grant activity of Northeast Michigan Consortium and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Northeast Michigan Consortium

Schedule B

Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2007

	Budget Original and Final	Actual	Amount Over (Under) Budget
Revenue:			
Federal grant revenue	\$ 5,648,630	\$ 5,114,892	(\$ 533,738)
State grant revenue	232,170	227,914	(4,256)
Interest revenue	0	5,391	5,391
Other revenue	139,830	139,830	0
Total revenue	6,020,630	5,488,027	(532,603)
Expenditures/expenses:			
Personal services	2,506,917	2,583,935	77,018
Supplies	232,830	225,800	(7,030)
Other charges and services	3,280,883	2,651,014	(629,869)
Total expenditures/expenses	6,020,630	5,460,749	(559,881)
Excess (deficiency) of revenue over expenditures	0	27,278	27,278
Fund balance/net assets - beginning of year	118,407	118,407	118,407
Fund balance/net assets - end of year	\$ 118,407	\$ 145,685	\$ 145,685

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
Northeast Michigan Consortium
Onaway, Michigan

We have audited the financial statements of the governmental activities and the major fund of Northeast Michigan Consortium (a nonprofit organization) as of and for the year ended June 30, 2007, and have issued our report thereon dated January 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northeast Michigan Consortium's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northeast Michigan Consortium's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northeast Michigan Consortium's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects Northeast Michigan Consortium's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States such that there is more than a remote likelihood that a misstatement of Northeast Michigan Consortium's financial statements that is more than inconsequential will not be prevented or detected by Northeast Michigan Consortium's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by Northeast Michigan Consortium's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Michigan Consortium's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within Northeast Michigan Consortium, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Wipfli LLP

January 14, 2008
Madison, Wisconsin

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Directors
Northeast Michigan Consortium
Onaway, Michigan

Compliance

We have audited the compliance of Northeast Michigan Consortium (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Northeast Michigan Consortium's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Northeast Michigan Consortium's management. Our responsibility is to express an opinion on Northeast Michigan Consortium's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northeast Michigan Consortium's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Northeast Michigan Consortium's compliance with those requirements.

In our opinion, Northeast Michigan Consortium complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

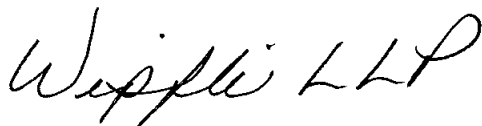
Internal Control Over Compliance

The management of Northeast Michigan Consortium is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Northeast Michigan Consortium's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northeast Michigan Consortium's internal control over compliance.

A control deficiency in an organization's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of federal and state programs on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ability to administer federal programs such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the organization's internal control. There were no significant deficiencies identified.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of federal and state programs will not be prevented or detected by the organization's internal control.

This report is intended solely for the information and use of management, the Board of Directors, others within Northeast Michigan Consortium, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Wipfli LLP

January 14, 2008
Madison, Wisconsin

Northeast Michigan Consortium

Schedule of Findings and Questioned Costs

A. Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Northeast Michigan Consortium.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Northeast Michigan Consortium were disclosed during the audit.
4. No significant deficiencies were disclosed during the audit of the major federal award programs as reported in the Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Northeast Michigan Consortium expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for Northeast Michigan Consortium.
7. The programs tested as major programs were the U.S. Department of Labor, Workforce Investment Act, WIA Cluster Program, CFDA #17.258, #17.259, and #17.260, and the U.S. Department of Health and Human Services, Work First/TANF, CFDA #93.558.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Northeast Michigan Consortium was determined to be a low-risk auditee.

B. Findings – Financial Statements Audit

None

C. Findings and Questioned Costs – Major Federal Award Programs Audit

Findings: None

Questioned Costs: None